

EMPIRE STATE DEVELOPMENT CORPORATION

To: Committee on Homeland Security

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Hearing: July 13, 2006 at 10:00 am

Testimony Attached

Thank you for the opportunity to provide testimony on Empire State Development's economic recovery initiatives following the terrorist attacks on the World Trade Center. I am pleased to report that lower Manhattan is once again a vibrant center of commerce.

Let me review how far we've come and what we've done.

On September 10, 2001, the district of south of 14th Street had 20,000 small businesses and 103 large businesses with more than 500 employees each. Large firms amounted to only half of 1% of all the businesses in the area, but employed 42 percent of all workers.

Following September 11th, virtually all of these companies – and a half million employees – were affected.

While the physical impact of the 9/11 attacks was geographically limited to the blocks near the World Trade Center, the attacks had a far more substantial economic impact. An independent source estimated 64,000 jobs could be permanently lost.

Governor Pataki's initiative to establish a unified Federal/state/city command, and to designate Empire State Development as the lead agency for economic recovery, made it possible for New York State to implement a quick and effective response to the attacks, the goals of which were to keep businesses in lower Manhattan and to preserve New York's position as the global center for finance.

Within 48 hours of the attacks, ESD had set up a walk-in center in New York City and 1-800 number to field inquiries about assistance for businesses. These were in operation before the fires at the Trade Center were out.

Using State funds, we guaranteed \$33 million in bridge loans from banks to nearly 1,000 qualified small businesses. We instituted a grant program for retail businesses, approving more than 3,000 applications and \$13 million in grants.

It soon was clear that Federal help would be needed. The Department of Housing and Urban Development's Community Development Block Grant was identified as the most appropriate vehicle to fund New York's economic recovery efforts. Thanks to quick action by Congress, substantial federal resources were made available.

Our effort had two primary objectives: To help small businesses make up the loss of working capital, and to provide incentives for businesses to return to, or remain in, lower Manhattan.

With \$1.2 billion in HUD funds, we created our three largest programs.

The Job Creation and Retention Program (JCRP) was intended to retain and attract large "anchor" firms. Seventy-seven companies accepted grants totaling \$292 million. They have committed to retain and create more than 70,000 jobs in lower Manhattan and a total of 91,000 jobs citywide. Four and one-half months after the attacks, we began providing \$563 million in business recovery grants to compensate small business loss. Business Recovery Grants were available to eligible businesses south of 14th Street with fewer than

500 employees and with unreimbursed economic losses. In addition, \$13 million was allocated to large businesses that employ 200 workers or less at their downtown locations.

BRG provided assistance to more than 14,000 businesses. The average grant was nearly \$39,000 and compensated only 16.8% of the average firm's loss.

Six months after the attacks, we began the Small Firm Attraction and Retention Grant (SFARG) program. Through SFARG, we have disbursed nearly \$115 million to 2,200 small businesses that made a 5 year lease commitment to stay in lower Manhattan. These firms employ over 37,000, nearly 1/3 of whom are low-wage earners. Second grant disbursements, totaling \$42 million, to eligible companies that stay downtown, will take the program into mid-2007. In other programs, we provided \$42 million in business recovery loans and nearly \$5 million for technical services for small businesses.

We carefully followed Federal rules, including development of an action plan that was reviewed and approved by New York City and the Department of Housing and Urban Development, and widely circulated for public comment.

Our economic development staff reviewed every request for assistance. Each BRG grant received at least five different reviews. JCRP grants underwent a thorough economic analysis and approval from our Board of Directors. HUD's Inspector General concluded, "ESDC generally disbursed the CDBG disaster assistance funds to eligible applicants in accordance with the HUD approved action plan."

Great care was taken to ensure a fair and efficient process, balanced with careful documentation and accountability. We often pursued third-party verification prior to awarding funds. This included: reviewing the Port Authority's master list of World Trade Center tenants; requested tax information from the IRS; site visits; speaking with landlords; and confirming employee numbers with the State Department of Labor.

Where fraud has been detected, ESD has worked closely with law enforcement. As of this time, only two cases have gone to trial.

Our initiatives to help rebuild the lower Manhattan economy taught some important lessons. Among them:

- Building relatively simple-to-administer and simple-to-apply-for assistance programs with objective, transparent rules understandable to potential grant recipients.
- Scaling programs to match organizational capacity.
- Establishing procedures to catch errors and potential fraud.
- Recognizing that some federal and state loan programs are not well-suited to the purpose of disaster recovery.

Today, less than five years after September 11th, businesses have returned, and a residential influx has taken place in lower Manhattan.

Specifically, the lower Manhattan office market is showing signs of sustained recovery.

The vacancy rate downtown dropped from nearly 14% at the beginning of 2005 to 10.6%

at year end, its lowest level since September 11th. In the past year, the number of downtown businesses increased by 6%.

With the recovery of the area's business economy, lower Manhattan has become home to a burgeoning residential community. Today, there are more than 20,000 residential units south of Chambers Street, a 10% increase over 2004. 29 developments are under construction, adding almost 4,000 new units in the next few years.

And tourism in New York City is at a record high, with 41 million visitors in 2005, and visitor spending at \$21 billion in 2004.

ESD's assistance has contributed to this new vitality.

We have more to do, of course, but are proud of what has been accomplished thus far. Through the leadership and vision of Governor Pataki, Mayors Giuliani and Bloomberg and our Congressional Delegation and their colleagues, we have not only helped renew lower Manhattan, but we have rebuilt the confidence of the business and residential community in one of the most important parts of our city, State, and country.

Thank you.